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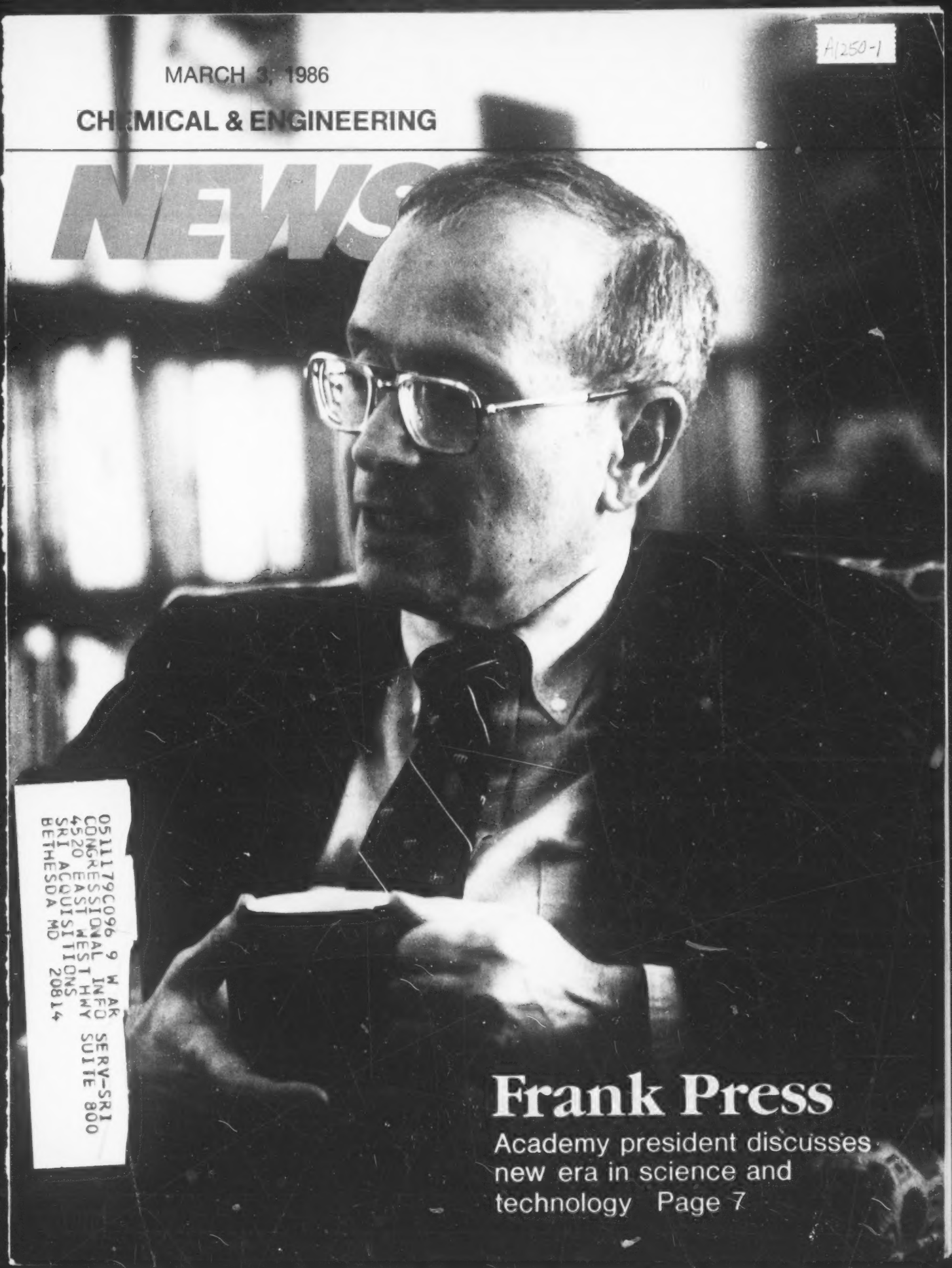
CHEMICAL & ENGINEERING

NEWS



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Frank Press

Academy president discusses new era in science and technology Page 7

CHEMICAL & ENGINEERING NEWS

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MARCH 3, 1986

News of the Week

■ **Toxicity tests indicate that survivors of the Bhopal disaster can expect lingering respiratory illnesses from MIC exposure.** Page 4

■ **California firm uses genetically altered bacteria on potted fruit trees without notifying EPA.** Page 5

■ **Discovery of antibodies to a synthetic peptide that neutralize live hepatitis B virus could lead to more effective vaccine.** Page 5

■ **Members of research community meet at NAS convocation to discuss effects of cuts in federal spending for basic research.** Page 6

■ **EPA task force recommends guidelines to monitor groundwater at hazardous waste sites.** Page 6

Cover: Photo by C&EN's Ernest L. Carpenter

Letters 2

Concentrates

Business 13

Government 26

Science/Technology 32

The Departments

Meetings 45

Newscripts 60

Business

U.S. drug industry sales rose 12% in fourth-quarter 1985 over the like period in 1984, aided by weaker U.S. dollar. **Page 14**

"Acceptable Risks," ABC television film of a fictional chemical plant disaster, is a plausible, cautionary tale. **Page 16**

International Business

The Netherlands' DSM is getting more heavily into specialties and fine chemicals, expects much from its nylon 46 polyamide. **Page 21**

Government

Emphasis of environmental protection now is shifting to small-quantity generators, Council on Environmental Quality reports. **Page 27**

Conference on biotechnology focuses on scientific and policy issues, concludes there are no regulatory changes in sight. **Page 28**

Science

Space probes from the world's nations will scrutinize Halley's comet to gather data on dust, solar wind, other phenomena. **Page 33**

Technology

Stable supported metal-cluster catalysts—osmium cluster anions on magnesia—are used in Fischer-Tropsch synthesis. **Page 41**

Books

"Enough of Pessimism," a series of essays by Philip Abelson, gives a balanced look at science issues over a 22-year span. **Page 43**

News Focus

National Academy of Sciences president Frank Press remarks on the rapidity of scientific advances and changes in the structure of science policy. **Page 7**

U.S. Drug Firms' Profits Climbed 12% in Fourth Quarter

Weaker U.S. dollar helped sales increase 11%; profitability edged up slightly to 11.5% from a year earlier

David Webber, C&EN New York

The pharmaceutical industry's most intransigent problem over the past few years has been the waxing strength of the U.S. dollar. Now, through international efforts, the value of the dollar against other major currencies has waned somewhat. Though still holding down U.S. drug house earnings (most American pharmaceutical producers typically record a large share of their sales overseas), exchange rates have become less overwhelming. The change helped sales revenues of most large pharmaceutical companies grow strongly in the fourth quarter of 1985.

For a group of 16 major pharmaceutical companies, sales increased a composite 11% in fourth-quarter 1985 compared to the equivalent period a year earlier. The sharp increase marked the first time the group's combined revenues had risen by a double-digit percentage in several quarters. On the same basis, composite earnings from operations for the group climbed 12% from fourth-quarter 1984. The 16 companies' combined profit margin (after-tax earnings as a percentage of sales) edged up to 11.5% from 11.4% in the same quarter the year before.

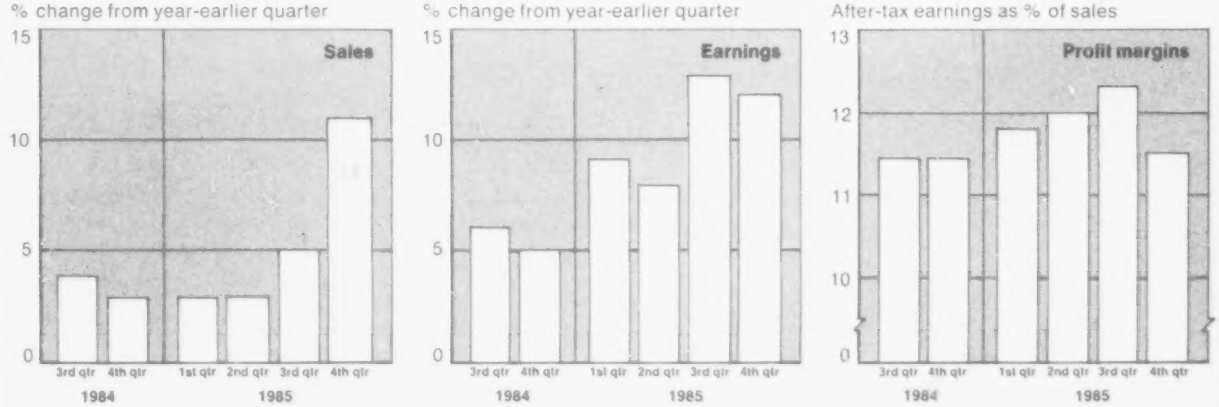
For all of 1985, the group's composite sales total climbed 5% from 1984. Earnings from operations were up 10%, allowing profitability to jump to 12.0% from 11.5% in full-year 1984.

During the fourth quarter, half of the 16 companies recorded double-digit increases in sales, whereas only one firm reported a decrease in revenues. Results were equally consistent in terms of net income. Eleven companies in the group reported growth of 10% or more in earnings; only two suffered decreases, and those were only 2% each compared to fourth-quarter 1984. No company in the group lost money on operations in the final quarter of 1985.

At most companies, pharmaceutical segments performed well. More mixed results were recorded by the hospital supply and medical devices business units. Those firms with specialty chemical and agricultural chemical businesses had problems similar to those encountered by chemical companies in those areas. Most personal care and household products segments recorded a successful quarter.

One of the more notable gains in the quarter was recorded by Baxter Travenol, which raised net income 57% on a sales increase of 82%. These results factor out a $29 million after-tax charge to earnings to cover the costs of asset and staff consolidations associated with the November acquisition of American Hospital Supply while including sales contributed over the final six weeks of the year by the new unit. Nevertheless, Baxter Travenol sales rose across the board: up 13% in the par-

Pharmaceutical industry 1985 fourth-quarter results



Note: All sales, earnings, and profit-margin statistics are based on combined results of the 16 companies listed on page 15.

Pharmaceutical profit margin rose in fourth quarter

	FOURTH-QUARTER 1985						FULL-YEAR 1985					
	Sales ($ millions)	Earnings[a]	Change from 1984		Profit margin[b]		Sales ($ millions)	Earnings[a]	Change from 1984		Profit margin[b]	
			Sales	Earnings	1985	1984			Sales	Earnings	1985	1984
Abbott Labs	$ 954.4	$141.4	12%	15%	14.8%	14.5%	$3360.3	$465.3	8%	16%	13.8%	13.0%
American Home Products	1153.9	183.7	4	10	15.9	15.1	4684.7	717.1	4	9	15.3	14.6
Avon Products	787.4	62.9	10	−2	8.0	9.0	2470.1	128.2	−5	−16	5.2	5.8
Baxter Travenol	839.0	36.0	82	57	4.3	5.0	2355.0	166.0	31	14	7.0	8.1
Becton Dickinson	265.4	17.5	5	21	6.6	5.7	1156.1	91.1	3	39	7.9	5.8
Bristol-Myers	1109.2	130.9	10	11	11.8	11.6	4444.0	531.4	6	12	12.0	11.3
Lilly	817.1	124.5	5	6	15.2	15.1	3270.6	517.6	5	6	15.8	15.8
Merck	958.0	134.4	0	16	14.0	12.0	3547.5	539.9	0	10	15.2	13.8
Pfizer	1057.9	139.3	9	7	13.2	13.4	4024.5	579.7	4	13	14.4	13.2
A. H. Robins	186.1	16.8	12	132	9.0	4.4	706.1	61.4	12	124	8.7	4.3
Schering-Plough	488.4	43.3	9	15	8.9	8.4	1927.1	192.6	3	9	10.0	9.5
SmithKline Beckman	895.2	129.6	17	7	14.5	15.8	3256.6	514.4	10	3	15.8	17.0
Squibb	591.3	59.5	13	19	10.1	9.5	2041.7	226.6	8	15	11.1	10.5
Sterling Drug	468.2	43.2	9	24	9.2	8.1	1753.7	153.3	2	8	8.7	8.2
Upjohn	514.2	50.3	14	15	9.8	9.7	2008.5	203.2	6	7	10.1	10.0
Warner-Lambert	765.7	50.4	−4	−2	6.6	6.4	3200.1	237.7	1	6	7.4	7.1

a Excludes significant extraordinary and nonrecurring items. b After-tax earnings as a percentage of sales.

enteral therapy segment; up 8% in blood therapy; up 10% in renal and urological therapy; and up 33% in other medical products and services.

Becton Dickinson also peformed well in the fourth quarter, with a 21% rise in net income on a 5% increase in sales. Revenues rose for both major segments: medical products, up 4% to $133 million, and diagnostic products, up 17% to $98 million. Sales of nonhealth care products declined 18% in the quarter, but that was primarily the result of the divestiture of the company's Digitran division.

At Upjohn, earnings jumped 15% on a 14% increase in sales. The company's sales of human health care products and services increased 18% in the fourth quarter. This was largely due to record sales by Xanax, a central nervous system disorder agent that is now Upjohn's leading product, and good performance by other drug products, and despite lower revenues from Motrin, pricing for which has declined to answer competition from over-the-counter ibuprofen products. Sales of agricultural products declined 4%. The company says agronomic seed demand was strong in the U.S., Argentina, and Mexico, but prices were significantly lower in the U.S.

Squibb recorded record sales and earnings for both fourth-quarter and full-year 1985. Over the course of the year, the pharmaceutical products group performed strongly, with a 10% increase in worldwide sales. At the same time, however, the medical products group reported a sharp decline in profits despite a 4% increase in sales for the year. The chief cause was the company's inability to maintain product development schedules in two areas, but those problems have now been solved, the company says. Squibb's personal care group, Charles of the Ritz, did well. Sales rose 8% globally, resulting in a 9% increase in pretax profits.

"The marked improvement in recent years in the ratio of profit from operations to sales—17.4% in 1985 compared with 9.9% in 1981—is a key indicator of better earnings quality," comments Richard M. Furlaud, chairman and chief executive officer. "This was achieved despite an increase in R&D expenditures of 74% over the 1981 level." In 1985, Squibb spent $166 million on research, up 10% from 1984 outlays.

Sterling Drug raised its net income 24% in the fourth quarter on a 9% sales increase. At the end of 1985, the company decided to divest its Hilton-Davis chemical business and sold that unit's optical brighteners component. This was part of the company's strategy to concentrate on its core businesses of prescription medicines, proprietary medicines, and household and consumer products. Those segments performed well in the final quarter. Sales of pharmaceutical specialties rose 2% and increased 11% for proprietary products and 24% for household and consumer products.

For the full year, Sterling's net income rose 8% on a 2% sales increase. Though pharmaceutical specialties sales were flat, revenues from proprietary products moved up 3%. Sales of household and consumer products, the largest single domestic segment, jumped 10% in 1985 compared to 1984.

At Eli Lilly, earnings rose 6% and sales 5% in both fourth-quarter 1985 and full-year 1985, compared to their respective year-earlier periods. For the full year, Lilly's human health businesses prospered: Pharmaceutical products sales increased 7%, led by oral antibiotics and human insulin products, and medical instrument systems sales rose 20%. Sales of agricultural chemical and animal health products, on the other hand, declined 6% for the year. One bright note: U.S. agricultural chemical sales were up, led by strong sales for Sonalan herbicide. Lilly's cosmetics unit, Elizabeth Arden, reported record sales for the year, up 9% from their 1984 level. □